



Investment Office

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March 13, 2006

AGENDA ITEM: 5a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Investments in Commodity Futures
- II. PROGRAM:** Asset Allocation/Risk Management
- III. RECOMMENDATION:** Information

IV. BACKGROUND:

At the December 12, 2005 Investment Committee meeting, staff made a brief presentation on commodity futures as part of the Asset Allocation / Risk Management Annual Plan. Staff indicated they would return with more detailed information on the merits of this asset class. Staff is presenting materials on Commodity Futures in two sessions. The first session is an educational overview of Commodity Futures. The second will be a specific recommendation at the next Investment Committee meeting in April. This allows Board members time to provide feedback to Wilshire and staff.

Also included in attachment 2 is a letter to Wilshire from staff responding to questions Wilshire presented in regards to investing in commodities. Attachment 3 is a memo from the former Chief Investment Officer responding to the Wilshire questions. In addition, attachment 4 contains research from Wilshire regarding commodity futures.

Next Steps

Following discussion and feedback by the Investment Committee members at the March meeting, staff will return in April to seek approval for the specific recommendation for this pilot program. The agenda will also include a review of the potential impact this strategy can have on the overall risk of the CalPERS Fund.

V. STRATEGIC PLAN:

Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and Goal IX, achieve long-term, sustainable, risk-adjusted returns.

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